

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Kelley Analyst: Darrine Distefano Bill Number: AB 952
Related Bills: See Legislative History Telephone: 845-6458 Amended Date: 04-26-2001
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Exclusion/Vouchers for Installing Water and Energy Efficient Clothes Washers, Plumbing or Irrigation Devices

SUMMARY

This bill would treat rebates or vouchers received by a taxpayer for the purchase of water conservation appliances and devices as a refund or price adjustment.

SUMMARY OF AMENDMENTS

The April 26, 2001, amendments eliminated all language regarding the California Water Commission and added the new language discussed in this analysis.

This is the department's first analysis of the bill.

PURPOSE OF THE BILL

According to the author's staff, the purpose of the bill is to allow taxpayers to treat rebates or vouchers received for the purchase or installation of energy efficient clothes washers, and plumbing or irrigation devices as a refund or price adjustment of amounts payable.

EFFECTIVE/OPERATIVE DATE

This bill is a tax levy and would be effective immediately. It would apply to taxable years beginning on or after January 1, 2001.

POSITION

Pending.

Summary of Suggested Amendments

The department is available to assist the author's staff in resolving the concerns addressed in this analysis.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department Director

Date

Gerald H. Goldberg

05/25/01

ANALYSIS

FEDERAL/STATE LAW

Existing federal and state law allows taxpayers to exclude from gross income any subsidy provided (directly or indirectly) by a public utility to customers for the purchase or installation of any energy conservation measure. An “energy conservation measure” is any installation or modification primarily designed to reduce consumption of electricity or natural gas or improve the management of energy demand in a dwelling unit as defined by federal law.

Existing state law also provides that amounts received as a rebate from a local water agency or supplier for expenses paid or incurred by a taxpayer for the purchase or installation of a water conservation water closet or urinal shall be treated as a refund or price adjustment of amounts payable to that agency or supplier.

THIS BILL

This bill would expand the treatment of rebates for water conservation water closets under current law to include vouchers from an energy agency for the purchase or installation of a water conservation water closet or urinal.

This bill also would expand the current treatment of rebates for “water closets” to rebates and vouchers from a local water or energy agency or supplier received by the taxpayer for expenses paid or incurred for the installation of any energy efficient clothes washer, or for the purchase or the installation of certain plumbing or irrigation devices. The plumbing or irrigation device must serve one or more of the recycled water uses that meets the Water Reuse provisions of the Water Code. The clothes washer must meet certain energy or water use standards as determined by the State Energy Resources and Conservation Commission.

IMPLEMENTATION CONSIDERATIONS

It's unclear what a “local energy agency or supplier” would mean. It could mean a state agency or a public or private utility. The term should be clarified to resolve any confusion that may occur regarding what type of rebate or voucher may be eligible

Once the implementation consideration is resolved implementing this bill would not significantly impact the department's programs and operations.

TECHNICAL CONSIDERATIONS

This bill would add clothes washers and plumbing or irrigation devices to an already long and confusing section of current law. In fact portions of this bill refer to the “purchase and installation” of the aforementioned devices being eligible for the benefit allowed by this bill, while other portions of the bill only refer to “installation.” It would seem inconsistent that only the “installation” costs would apply for the clothes washers while the “purchase and installation” costs would apply for plumbing or irrigation devices. The author should consider revising the bill to resolve any inconsistency and simplify the bills intent.

LEGISLATIVE HISTORY

SB 1520 (Presley, Stats. 1990, Ch. 809), created the current treatment for any amount received as a rebate from a local water agency or supplier by the taxpayer for expenses paid to install a water conservation water closet or urinal.

OTHER STATES' INFORMATION

Review of *Florida*, *Illinois*, *Massachusetts*, *Michigan*, *Minnesota*, and *New York* laws found no comparable exclusions from gross income.

Massachusetts and *New York* offer a credit for either solar energy devices or energy conservation devices. *Michigan* does not allow an energy-related credit, but exempts the value of energy conservation devices from the local property tax

These states were reviewed because of the similarities between California income tax laws and their tax laws.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

The revenue impact of this bill would be negligible. Under present law, most individual taxpayers treat rebates or vouchers as a refund or price adjustment. Business taxpayers receiving a rebate should reduce their deductible expenses by the amount of the rebate.

For a rebate of \$600 or more, water authorities are required to report the rebate amount on a Form 1099. According to industry contacts, \$1.8 million in cash incentives were provided to California taxpayers to install water and energy-efficient clothes washers in 2000. Rebates for plumbing or irrigation devices for recycled water uses as specified are relatively infrequent and typically for a specific project.

ARGUMENTS/POLICY CONCERNS

This bill would provide a tax benefit for business entities under the Personal Income Tax Law that would not be provided to corporations. Thus, this bill would provide differing treatment based solely on classification.

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